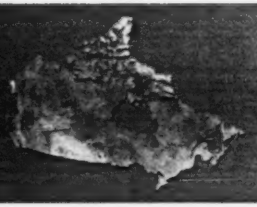

Canadian Natural Gas

›› Monthly Market Update

November 2010

›› Oil and Gas Policy, Analysis and Regulatory Affairs Division
Petroleum Resources Branch
Energy Sector

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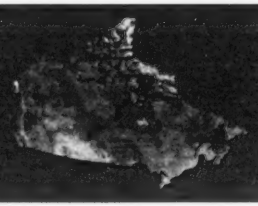

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Foreword

The Canadian Natural Gas: Monthly Market Update is a monthly analytical paper prepared by the Petroleum Resources Branch of Natural Resources Canada. The report provides the most recently available data on natural gas prices and related market fundamentals.

Please direct any comments or questions to Stacey Power at (613) 992-1023, or by email at Stacey.Power@nrcan.gc.ca

Executive Summary

In November, Canadian storage inventories surpassed the 5-year maximum level. Storage, combined with surging North American shale gas production, exerted downward pressure on the price of natural gas. At 3.23 CAD$/GJ, the November AECO price is down 31% from one year ago.

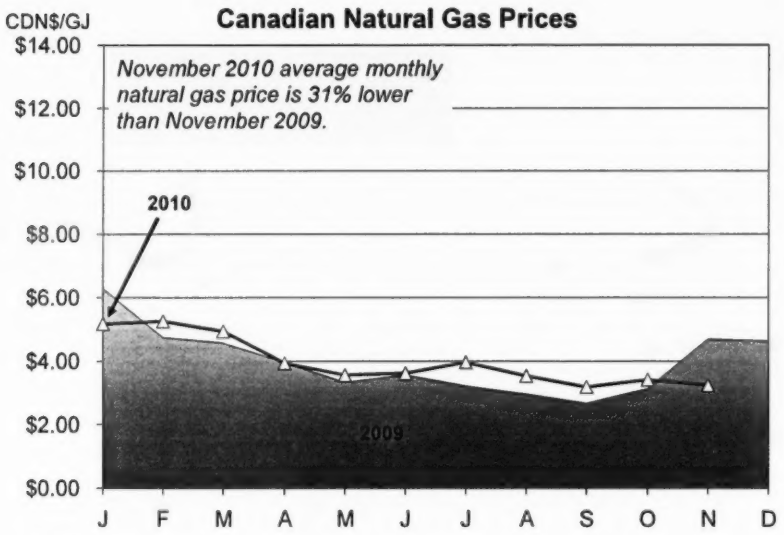
Despite the low price environment, industry continues to drill new wells. In the last 3 months, drilling levels have rebounded significantly from earlier in the year – and compared to November 2009, drilling is up 320%. Drilling has rebounded in part because industry has switched it's focus to developing the lowest cost shale plays and in particular, the liquids-rich shale plays. These plays are more attractive because the liquids (e.g. ethane, propane, butane) are tied to the price of crude oil and command a higher price than natural gas.

Natural Gas Market Fundamental	Value	Percentage Change	
		Month 2010 vs. Month 2009	Current Month vs. Previous Month
Prices, CAN $/GJ (Nov-10)	3.23	-31%	-5%
Heating Degree Days (Nov-10)	474	+18%	+68%
Production, Bcf (Sept-10)	392	-1%	-7%
Sales, Bcf (Sept-10)	154	+10%	-2%
Exports, Bcf (Sept-10)	250	-12%	-15%
Imports, Bcf (Sept-10)	48	+3%	+5%
Storage, Bcf (Nov-10)	635	+6%	+7%
Drilling, wells (Nov-10)	970	+320%	+35%

Note: GJ: Gigajoule; Bcf: Billion Cubic Feet

Sources:
- *Crude Oil and Natural Gas (Preliminary)*, Statistics Canada
- *Natural Gas Transportation and Distribution, 55-002*, Statistics Canada
- *Supply and Disposition of Crude Oil and Natural Gas, 26-006*, Statistics Canada
- *Drilling Highlights*, Daily Oil Bulletin website: www.dailyoilbulletin.com
- Canadian Natural Gas Focus, GLJ Energy Publications Inc.
- *Natural Gas Storage Survey*, Canadian Enerdata Ltd.
- *Natural Gas Export Statistics*, National Energy Board website: www.neb-one.gc.ca
- Canadian Gas Association, website: www.cga.ca

Figure 1

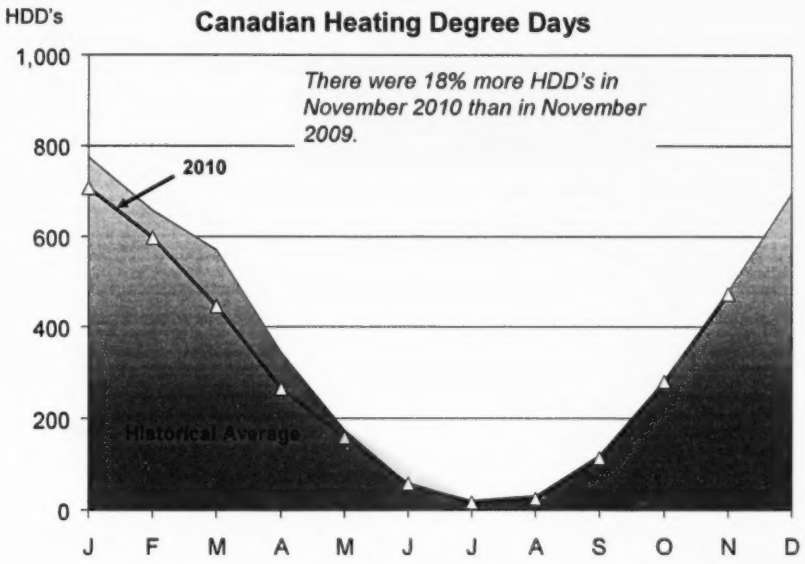


Source: GLJ Energy Publications **Note:** Canadian price is the Alberta price at the AECO hub.

Figure 1 illustrates the price of natural gas at the major Canadian pricing point – the Intra-Alberta market, a.k.a. AECO . The price is for gas delivered under a 30-day contract. The Intra-Alberta market is formed by gas delivered to pipelines in Alberta. Gas changes hands via Nova Inventory Transfers (NIT), exchanges at the AECO storage hub, or sales facilitated by the Natural Gas Exchange (NGX). This is a commodity price – a wholesale price in the producing area. Consumer (or "burner tip") prices will also include pipeline transmission and distribution costs, which vary across Canada. Natural gas is commonly measured in gigajoules (GJ) or cubic metres. A gigajoule is an energy unit, which equates to about 27 cubic metres of natural gas.

AECO natural gas prices averaged CDN $3.23/GJ in November 2010, a decrease of 5% from the previous month and a decrease of 31% from November 2009.

Figure 2



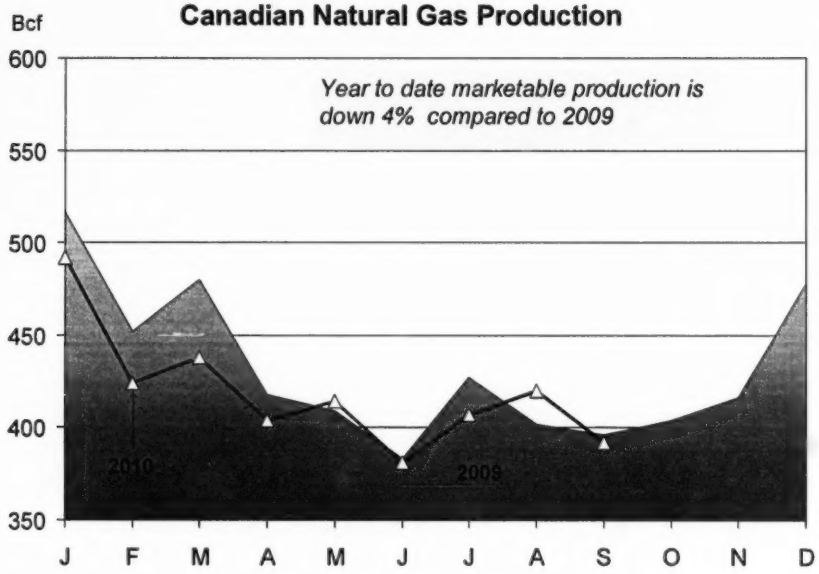
Source: Canadian Gas Association, NRCan

Figure 2 shows Canadian heating degree days (HDDs), which are a measure of how cold it is. The more HDDs in any season, the greater is natural gas demand for space heating. If a winter is unusually cold, demand for space heating will respond accordingly and natural gas prices will tend to be stronger. However, during a mild winter, natural gas demand for space heating will be weaker, which will tend to moderate prices.

In November 2010 there were 474 HDDs, 68% more than last month and 18% more than November 2009. November 2010 had 1% fewer HDD's than normal.

Figure 3

Canadian Natural Gas Production



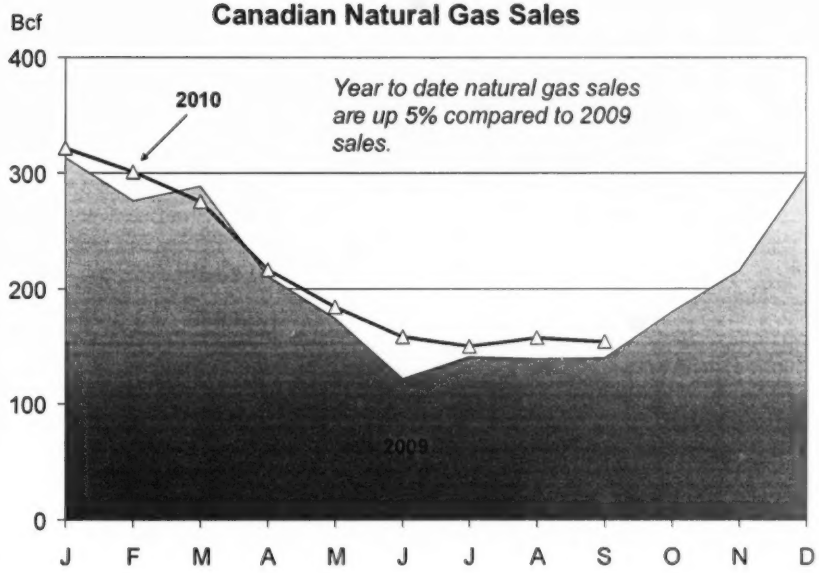
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 3 shows marketable natural gas production in Canada. Marketable natural gas is the gas available for consumption after processing and excludes producer or plant uses.

Marketable natural gas production in September 2010 was 392 Bcf. Production levels were 7% lower than the previous month, and 1% lower than the previous year.

Figure 4

Canadian Natural Gas Sales



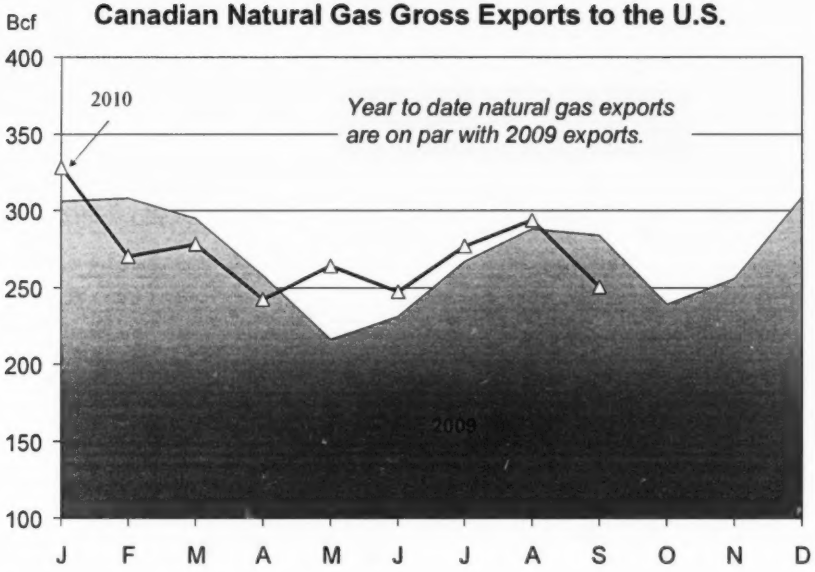
Source: Statistics Canada **Note:** Most recent month is a preliminary figure.

Figure 4 illustrates total Canadian natural gas sales. Sales include all natural gas sold to residential and commercial users (for space and water heating, cooking, etc), industries and electricity generating units in Canada. The totals do not include consumption by the natural gas industry itself (e.g., pipeline compressor fuel).

Natural gas sales to Canadian consumers in September 2010 were 2% lower than the previous month but 10% higher than sales in September 2009.

Figure 5

Canadian Natural Gas Gross Exports to the U.S.



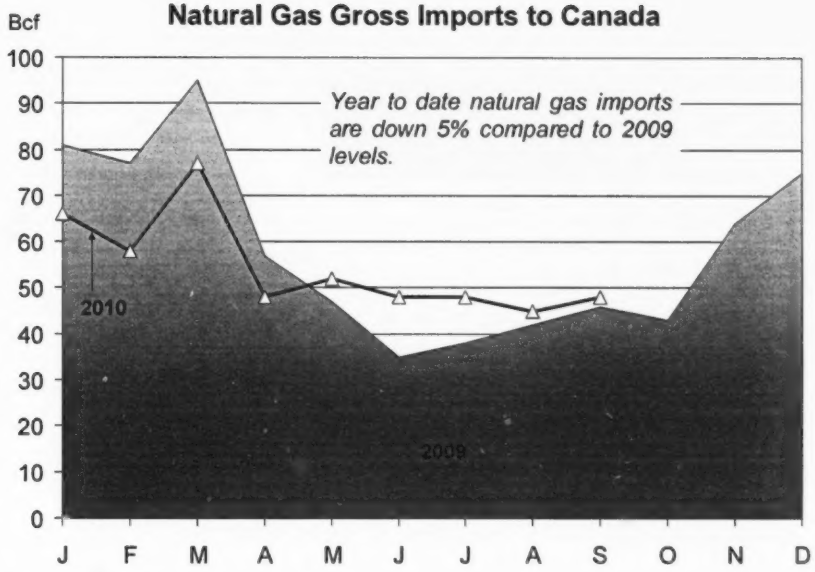
Source: National Energy Board

Figure 5 illustrates natural gas exports to the U.S. Canadian natural gas requirements are met mostly by domestic sources, as Canada produces natural gas in excess of what is required for domestic consumption. In comparison, the U.S. consumes more natural gas than it produces, therefore natural gas imports are required to make up the difference. Typically, Canada exports between 50 and 60 per cent of its gas production.

In September 2010 natural gas exports to the U.S. were 250 Bcf. This is a 15% decrease from the previous month and a 12% decrease from the same time last year.

Figure 6

Natural Gas Gross Imports to Canada



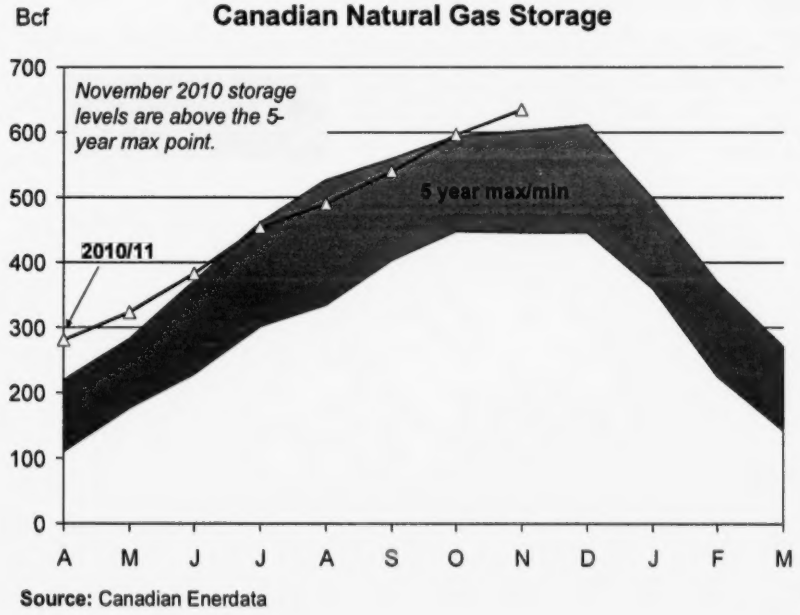
Source: National Energy Board

Figure 6 illustrates natural gas imports to Canada. Most natural gas is imported into Canada through major import points in southern Ontario. Imports into southern Ontario will likely rise in the future, as the province purchases more gas from the rest of North America due to flat production in the Western Canadian Sedimentary Basin. Presently, import volumes are significantly less than export volumes, and Canada remains a net exporter of natural gas.

In September 2010, natural gas imports to Canada were 48 Bcf, 5% more than the previous month, and 3% more compared to September 2009.

Figure 7

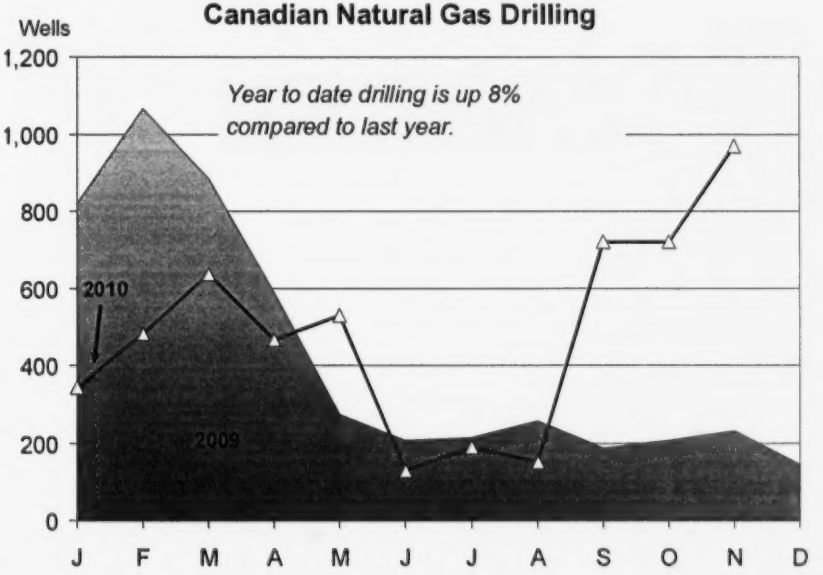
Canadian Natural Gas Storage



Source: Canadian Enerdata

Figure 8

Canadian Natural Gas Drilling



Source: Daily Oil Bulletin

Figure 7 illustrates natural gas storage levels in Canada. The amount of gas in storage generally follows a seasonal pattern. In the summer, when natural gas demand is low, gas is injected into storage. Storage volumes peak in the fall. In winter, volumes are drawn down, reaching a low point in the spring.

Canadian natural gas storage inventories increased by 39 Bcf from October to November 2010. Storage inventories in November 2010 are up 6% from November 2009 levels.

Figure 8 depicts the number of natural gas well completions in Canada. There is a time-lag between drilling a gas well and starting production, due to the work necessary to connect the new well to the pipeline grid. Drilling is therefore a good indicator of future natural gas supply.

970 natural gas wells were drilled in November 2010, a 35% increase from the previous month, and a 320% increase from the previous year.